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Starting a Gift Store

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INTRODUCTION

Gifts are exchanged among people regularly. Birthdays, weddings, anniversaries, and graduations all require attention and, in most cases, gifts. However, there is a cyclical nature to gift sales, causing gift stores to experience the third highest failure rate among retail outlets.

To be successful, your personal touch must be pervasive - from the selection of the location and merchandise to the business practice itself. You must have the ability to spot fast selling merchandise, and then to display it in an attention attracting fashion.

In this handbook we have identified some of the key areas which require management's attention prior to opening a gift store. A successful business demands people with skills in salesmanship, accounting, purchasing, advertising, and financial management. Your ability to develop these skills will directly affect the future success of the operation.

Of course, nothing can replace experience. Working in a gift shop will provide you with valuable insights into the potential problems you may encounter. Remember, to stay in business you must make a profit. Before starting out, reflect on your ingredients and skills, and your motives for starting up the business.

This handbook is one of a series of Business Resource publications. Of particular interest to the retailer are "Small Business Finance Plan", "Marketing", and "Retail Business Plan". They are available at the Business Resource Centre.

LEGAL CONSIDERATIONS

Thought should be given to the business structure your operation will assume. alternatives include sole proprietorship, partnership, and incorporation. Each business form has its own distinct advantages and disadvantages. Factors influencing your decision will include the ease and cost of organization, financing, management risk and liability and tax considerations.

As a retailer, you will be required to register your business name, obtain a provincial sales tax number, an employer number, and register with the Workers' Compensation Board. You must also comply with other tax regulations and employer responsibilities. Manitoba Industry, Trade and Tourism has produced a handbook "Starting a Small Business in Manitoba", which summarizes many of your responsibilities in areas of licensing, permits, taxes, etc.

It is essential to determine your insurance needs prior to staring your business venture. The major types of insurance to consider are:

Life Insurance - usually this coverage is placed on the lives of the owners (often partners will purchase life insurance on each other's life in order to insure the continued survival of business).

Workers' Compensation - this is required by Manitoba law for reimbursing employees injured on the job for any loss of wages suffered as a result of an injury. Contact 786-9505 or Toll free in Manitoba 1-800-362-3340.

General Insurance - most often this type of coverage includes insurance on the assets of the business, liability insurance on premises and vehicles, fire insurance, crime and vandalism, and business interruption insurance.

Information and advice concerning these legal matters can be obtained by contacting your nearest insurance broker or agent.

STORE TYPE AND IMAGE

The store that you develop must reflect your tastes, but more importantly it must cater to your prospective market. The two must be moulded together to produce a concept and image which will be successful.

There are basically three types of gift stores: souvenir shops; tableware stores; and, decorative items shops. The stores differ by the types of products sold, and clientele served, locations, and characteristics of the business problems encountered. A summary of these differences and features is presented in Table I.

TABLE I

	Major Products	Primary Clientele	Locations	Marketing Thrust	Notes
Souvenir	low priced, high turnover souvenirs	tourists	resort areas, tour stop-offs, airports, hotels	little advertising; few changes made in products offered for sale	rent is high, since location is all important
Tableware	china, glassware flatware, serving dishes	brides anniversary gift buyers	residential area	should carry 3 brand names and 4-10 place settings; attempt to obtain exclusive rights to certain brands	inventory costs are high because of necessity of maintaining stock
Decorative Items	varied -- ex. planters, plates, rugs	casual passersby, collectors	shopping area	have to be adding new products all the time	must be aware of trends and conscious of store's image and customer wants

Souvenir shops cater to tourists, and therefore must be located in places accessible to high volumes of tourist traffic. They sell postcards, t-shirts, ashtrays, and other relatively low-priced knick-knacks. Tableware shops deal in much more expensive merchandise, and their target clientele centres on the bride-to-be and anniversaries. Decorative items shops are somewhat of a cross between the two, selling a large variety of goods, catering to both passersby and a regular clientele.

Some gift stores, of course, offer all three types of merchandise. In selecting the type of gift store most suited to your particular situation, you must assess your own tastes and abilities, and the characteristics of the area under consideration. A tableware store will have a greater probability of success if it is located in a high income area of Winnipeg than if it is in Falcon Lake. If you live in a small town in Manitoba, you may have to include all three types of merchandise as demand does not warrant specializing in only one of them.

You can cultivate an image for your store, in order to build a regular clientele. This is more important for the tableware and decorative items shops than for the souvenir store. Elements of the image include the name of the store, the types of merchandise offered for sale, the displays, the decor, the pricing, the attitudes of the sales personnel, and the advertising policies. For example, stores such as Birks, K-Mart, and Consumer's Distributing each have their own distinctive images. Consideration would be given to your image in setting prices, advertising, arranging displays, selecting merchandise, and so on.

STORE DESIGN

If first impressions are lasting, it favours that the windows or immediate interior display is the criteria, by which customers will see and use to judge the store. This is especially true of new or potential customers rather than an already loyal cliental. This is critical to a gift ware store as they must attract the passerby for this accounts for a large percentage of their business.

Many outside stores still rely heavily on their exterior window displays to capture the attention of passersby. On the other hand, newer stores in shopping malls are often without windows. Therefore, visual attention is centered on the interior displays.

The use of display windows is an important tool in creating an atmosphere. The merchandise arranged in the windows should be indicative of what is available in the store. Tableware and decorative item stores, conveying a more exclusive and artistic image, would arrange items in single units. Souvenir shops, with a mass merchandising approach, would display items in large quantities, capturing the attention of passersby.

Display windows should be changed regularly in order to spark the interest of potential customers. The required rate of change depends on the nature of customer traffic - for a souvenir shop with many one-time customers, windows need not be changed as often.

1. **Window Displays:**

   It is essential that displays have an immediate impact on customers because it has been estimated that only eleven seconds are spent looking in a store window. It is important to familiarize yourself with the different forms of window displays, as some may be effective in conveying to the customer the image and promotional picture of your store.

   a) Straight front - closed glass enclosed area from floor to ceiling in window area facing street or mall, which is closed off from the interior of the store.

   b) Straight front - open glass enclosed area from ceiling to floor facing street or mall, which is open to the interior of the store.

   c) Shadow Box - small enclosed windows, usually at eye level, that are appropriate for displaying smaller items. This display can be used effectively to portray a variety of accessories or smal giftware items.

d) Corner window - a window display that can be seen from two access points. This is an effective display as goods can be seen from more than one direction thus giving the store better exposure.

2. **Interior Displays:**

Interior displays are a form of advertising that attempts to reach the customer at the point of sale. Through the use of color, texture, props, backgrounds, ingenuity and lighting, merchandise is made to look more appealing.

Effective interior layout promotes 'people flow' and customers are drawn among and past all merchanidse on display. The displays must be organized and appealing. If the customer has to conduct a major search to view the merchandise, he/she may become frustrated and leave the store without making a purchase.

a) Island and aisle displays - free standing, low platforms which can be walked around are called island displays. Frequently they display a particular theme or topic. An example might be all the matching kitchenware including accessories. Areas that are at an end of an aisle or in a corner area known as aisle displays. They are usually similar in format to island displays.

b) Perimeter displays - This is the use of walls, ceilings and shelves to display merchandise. Special display fixtures can be mounted to display the goods. This display format is good for smaller stores as it doesn't waste valuable floor space.

c) Counter and showcase displays - glass topped counters, showcases and wall cases serve as both display and storage units.

3. **Complimentary Display Aids**

They are design aids that can be used to enhance your window or interior displays.

a) Reprints and Posters - copies of nationally advertised items that your store carries or copies of your stores ad can be placed in windows, on doors or near the cash register to make customers aware of your product.

b) Impulse items - can be placed in baskets near the cash register to facilitate impulse buying.

c) Counter Cards - cardboard stands displayed on counters to attract attention to particular items.

d) Specialized display racks - a rack designed in a unique way to promote items.

e) Fixtures - no longer do they have to be restricted to utilitarian purposes, now their use can be combined to be both functional and a source of display. While new fixtures are readily accessible, often used furnishing and display features are available at significantly less costs. Consideration should also be given to custom vs ready made fixtures as well at the time factors involved. As long as there is no detrimental effect on the overall image, used fixtures are suitable.

In order to be successful interior or window displays should meet one or more of the following objectives.

1. Present a select range of merchandise to convey an image.
2. Educate the customer about the new items available at your store.
3. Encourage customers to make impulse and multiple purchases.
4. Intensify the demand from customers for items that are in the introductory or early adoption stage of the lifecycle.
5. Create a positive lasting image of the store.

In designing the layout of your store, be sure that all the elements are carefully coordinated with the merchandise you are selling, but don't be afraid to use your imagination. Remember - it's the unusual people that remember, the ordinary is usually quickly passed over and forgotten. The interior of your store should convey the atmosphere you wish to project. It should also help accent the merchandise and portray the image of a well stocked store with an interior layout designed to encourage mobility throughout the premises. Such interior display and layout techniques can't help but increase sales.

LOCATION

As noted, each of the three types of gift stores requires a different type of location. The souvenir shop requires a location near tourist traffic. The tableware shop should be in a middle and upper income area. Such area can be identified by using the Statistics Canada data. A tableware shop requires an area with substantial parking to accomodate the customers. The decorative shop needs a location with substantial traffic to facilitate impulse buying.

In selecting a location be sure that the store fits in with the surrounding area. A souvenir shop located in a well-to-do section of Winnipeg would not be successful. Local bankers and Chambers of Commerce can provide you with information regarding the economic status for the region and its growth plans.

Rent will probably represent your second largest cash outlay (after payroll). It is imperative that you carefully negotiate your lease. You should have the agreement reviewed by an attorney to clarify your obligations and requirements, and to insure that your best interests are protected. The costs of putting the space in shape to suit your needs will require careful estimating and this is an area where many a new venture fails to consider the real costs. Things like painting, paving, plumbing, landscaping, partitioning, wiring, etc. can add up to substantial amounts.

Many new gift stores are locating in shopping centres. The major disadvantages to locating in shopping centres are that rents are high, leasehold improvements can be substantial, and hours of business are stipulated by the rental agreement. However, one enjoys the benefits of joint advertising, security protection, and the traffic generated by the large number of stores.

As noted, the location best suited for your store may be dictated in part by the clientele which you serve. Tableware stores need not locate in shopping centres, and in fact may be better advised to locate in higher income residential areas. Rents in locations in those areas, or even in downtown areas, are generally lower than those for shopping centres. For a gift store which depends on a relatively high volume of casual traffic, that higher expense may be justified by the increased traffic flow.

In some instances there is little flexibility regarding the location of your business. For instance, you may need to be in an area of high vehicle or pedestrian traffic in order to generate sales. If, however, there are no restrictions as to your location, consideration should be given to locating in your home. Even if your business is located in your home there are some basic requirements.

1. zoning approval from the City of Winnipeg Zoning Department.
2. a business telephone - separate from your residence phone.
3. a business name and address
4. a mailing address
5. the method of marketing your product, i.e. direct marketing, party plan or "on consignment".

Operating your business at home should not be any different than running your business from an office. It is important that you set strict guidelines for yourself to discourage bad habits from developing. For instance you shouldn't allow yourself to conduct household errands during your alloted business hours. The commitment to your business must be as dedicated as if someone else were paying you, this can take a great deal of self-discipline.

If you are able to locate at home there are many positive aspects:

1. you eliminate travelling time and traffic problems
2. you are eligible to claim a portion of your home expenses as a tax deduction (if the income from the business is your sole earnings)
3. you can begin on a part-time basis or have more flexibility in your hours
4. operate with a smaller overhead and therefore start with a smaller amount of capital.

Today, many successful businesses are run from the home. As well, there is quite a variety of types of businesses being run from the home.

1. Designers
2. Interior Decorators
3. catering services
4. insurance agents
5. gift stores
6. Launderomats
7. Doctors
8. Mechanics

The final decision about the location best suited to your operation thus depends on a number of factors, but should not be based solely on one of these factors. The factors include the type of store, the target market, your ability to pay, and of course, the existence of competing stores. A careful assessment of the total market for gifts must be made before locating in an area already served by a gift store.

PURCHASING AN EXISTING STORE

If you are considering purchasing an existing operation there are a number of references to help in your selection.

1. The Business Opportunity section of the newspaper. This indicates opportunities available in the surrounding areas.

2. Real Estate brokers who deal in Business Opportunities.

3. The trade publication which can be an excellent source if you are looking for a particular type of business.

4. Word of mouth can be effective in some instances especially, if you are active in the field in which you wish to purchase your business.

As a prospective owner, you may have the option of purchasing an existing operation complete with inventory, fixtures, equipment, and store "goodwill".

Before making any decisions, carefully consider the following:

1. Find out why the business is being sold. Is it due to poor management, competition, or is the area deteriorating? Identifying the reasons for the sale may prevent you from making a poor investment.

2. Carefully audit the financial records for the last number of years. You find that there are hidden "costs" which have increased past profits, but may well lead to future losses.

3. Try to substantiate the sales volume in the records. Visit the operation and determine whether, in fact, the recorded sales volumes could be attained by the observed traffic.

4. Determine the value of the existing inventory. Stock may have a certain book value, but if it cannot be sold, the inventory is worthless.

5. Finally, determine what remodelling of the premises will be required before you can commence operations. You may wish to consult an interior designer.

A careful analysis of these and other factors should give you a firmer appraisal of the profitability of the business.

INVENTORY SELECTION

Your guiding parameter in selecting inventory is to purchase merchandise that will meet customer preferences. Start with a low level of inventory, to minimize capital requirements, and to allow you time to identify the best selling items. With experience, you will become aware of your customers' tastes, your sales volume, and the annual stock turnover. You can then refine your inventory selection techniques.

The rate of inventory turnover measures the number of times in a given period (usually a year) a store's complete inventory is sold and replaced. This figure is helpful in calculating the amount of inventory a store must carry to return the desired profit.

Turnover rate is computed as follows:

$$\frac{\text{\$ Annual Net Sales}}{\text{\$ Average Inventory at Retail}} = \text{Turnover Rate at Retail}$$

$$\frac{\text{\$ Cost of Goods Sold in One Year}}{\text{\$ Average Inventory at Cost}} = \text{Turnover Rate at Cost}$$

Average inventory equals inventory on January 1 plus end-of-the-month inventories for the next 12 months, divided by 13.

The inventory turnover ratio for the average variety store is 5 (annually). Each store's turnover ratio will vary according to its proportion of inexpensive fast-moving items and higher-priced, slower-moving goods. Fine tableware may turnover only once a year, while souveniers turnover six or seven times or more.

There is little need to alter the inventory selection for souvenir shops from year to year, because they do not deal with a regular cleintele. Inventory should include fad items which might appeal to local patrons, as well as to tourists. The nature of inventory selection for souvenir shops allows for volume buying and minimizes lead time requirements.

For tableware shops, one attempts to obtain exclusive area rights for popular tableware lines. Due to the high cost involved in obtaining exclusive rights, a number of lines should be carried initially until high demand items

can be identified. Inventory selection becomes a process of reordering merchandise for which your outlet has developed a reputation.

For a decorative gift store, inventory selection is a most difficult challenge. Stock must constantly be changing within a certain theme to attract and maintain a customer base. A balance must be struck between being too distinctive and having too much variety. The former may limit your market; the latter will not allow you to develop a central concept or image. Most manufacturers require a minimum order quantity, so it is important to carefully develop your purchasing policies. One alternative is to simply replace items which are sold.

SOURCES OF SUPPLY

There are different types of suppliers which can fulfil your merchandise requirments. Each has distinct features which may lend itself to your needs.

Manufacturers:

Dealing directly with manufacturers is the least expensive alternative. However manufacturers will usually require that a minimum quantity be ordered, and that the buyer assume the freight costs. Most manufacturers have company salesmen to independent manufacturers' agents through which orders can be placed.

Wholesale Distributors:

Wholesalers can provide merchandise in any quantity, with a quick delivery but at a higher price. Wholesalers can meet your emergency and short term requirements.

Import Sources:

Importers are wholesalers who offer merchandise from foreign sources. Prices are high due to currency exchanges, tariff regulations, and shipping costs.

Independent Artisans:

Local talent can provide your store with original works at reasonable costs. Manitoba has a wealth of talented artisans to draw upon. Inventory, capital requirements can be decreased if goods are purchased "on consignment". This means that you pay the supplier his or her percentage after the sale is made.

The Manitoba Trade Directory, Canadian and U.S. Trade Directories provide listings of manufacturers and distributors. These trade information sources are available at the Business Resource Centre.

There are a number of trade journals, such as Decorative Gifts, Gift Magazine and Gifts & Tableware, which can provide information regarding sources of supply, and new products.

Purchasing can also be done at trade shows. In Manitoba, there are a number of shows held during the year. The Winnipeg Gift and Jewellery Show is held twice a year and other trade shows are held across Canada. For a listing of these events contact the Business Resource Centre.

Until such times as you have established yourself with suppliers, no credit will be granted. After developing a credit rating, terms can be extended to "net 30 days". Under these terms full payment is not due until thirty days after the purchase is made.

Quantity discounts are sometimes offered as well. Check to see if you are responsible for freight charges, since they can be quite substantial.

In preparing purchase orders, it is sometimes advantageous to state a cancellation date. This will ensure that orders get prompt attention, and delivery dates are adhered to. Once orders are received, always check the products received against the original purchase order.

If exclusive rights for products cannot be obtained try to obtain from your supplier a promise that the merchandise will not be sold to other stores in your area. For example, if you are opening a gift store in Winkler, you may not want to carry the same lines as the other gift stores in town.

INVENTORY CONTROL

The objective of inventory 'control' is to (a) minimize lost sales caused by stockouts, and (b) minimize costs associated with inventory (ordering and holding costs primarily). An effective inventory control system will provide information which will help you make more effective decisions. It should help in the following areas:

(1) identifying good selling merchandise, and that which is not selling and should be discontinued;

(2) telling you when to reorder items, taking into account the rate at which they are selling and the time required for the order to be delivered;

(3) determining the appropriate minimum inventory levels for each item;

(4) providing information about items in transit and expected delivery dates; and

(5) identifying losses due to pilferage.

Inventory control systems can be simple, or they can be very sophisticated. Perpetual inventory systems maintain records for each item in the store. A record is kept (perhaps on a card) of all sales, purchases, orders, and order quantities for each type of item. At any time, the quantity on hand as indicated on the card should accurately reflect the actual quantity in the store. Perpetual systems are generally used for very expensive items.

A periodic control system does not provide as stringent control over inventory. Under this system, periodical physical counts are made in order to determine what was sold. Inventory on hand at the end of the period is subtracted from inventory on hand at the beginning (plus purchases) to determine the cost of goods sold. This system might be more appropriate when there are larger volumes of items, and the value per item is low (such as in a souvenir store).

For specific periods, purchase requirements can be identified by adding the minimum inventory level for the period to the projected sales volume and then subtracting the inventory on hand plus purchases on order. For example, if the minimum inventory level for January is $3,000, projected sales at cost

$4,000, inventory on hand $2,000, and purchases on order $1,000, then you should budget $4,000 ($3000 + $4000 - $2000 - $1000) for January's purchases.

Remember to consider all amounts at cost (not retail) and to periodically adjust costs for inflation. In anticipating inventory needs, be sure to consider seasonal fluctuations. Tableware shops may feel higher demand in wedding seasons, if they cater to brides. Souvenir shops will of course experience their peak demand in the tourist months of May to September. Gift shops in general sell two to three times as much as normal during the November-December Christmas selling season.

You will have to adapt any guidelines offered here to your own particular situation. Conditions depend on customers served and merchandise offered, so one cannot apply guidelines without some thought given to the peculiarities of the situation.

ADVERTISING AND PROMOTION

Advertising is used to create interest in your outlet as well as to inform the public of your existence. The amount that you should spend on advertising depends to some degree on the type of merchandise you are selling. A souvenir shop need not advertise to the same degree as a tableware store, mainly because it would be difficult for the message to reach the souvenir shop's target audience (tourists). The tableware store must advertise, initially to make potential customers aware of the store, and subsequently to remind them about special sales, new arrivals, and so on. Similarly, a decorative items shop should advertise.

The success of a stores advertising campaign is largely dependent upon the planning that takes place before hand. First you must decide which approach you want your ad to focus upon.

a) Product advertisements - the promotion of specific merchandise. Much thought must be given to the selection of merchandise for an advertisement. Market sigmentation, product benefits, factual data, popularity, pricing strategy, depth of stock, timeliness, and availability of merchandise must all be considered.

b) Institutional advertisements - The focus of the advertisement stresses services or store image. When using this approach, you must determine what is your store image and which of the qualities composing this image you wish to stress. Merchandise quality, pricing policies, services, employee attitude, and store appearance, are all factors that contribute to the stores total image.

There are a number of media which can be used to transmit your advertising message. Those most suited for gift shops are direct mail and newspapers. Direct mail might be most useful for tableware shops, which have a more select group of customers. Notice can be sent to regular patrons of new arrivals, sales, or reminders before gift exchanging seasons. Decorative items shops, which depend to a greater extent on casual traffic, may find direct mail a less effective medium.

The choice of newspapers ranges from those with provincial exposure (such as the Winnipeg Free Press) to those with more limited circulation (such as the Carillon in Steinbach). Again, it is important to select the newspaper which will reach your target audience most effectively. Newspapers are an excellent means of promoting special events, and most papers will provide support in copy development and layout.

There are other media which might be used as well. Radio and television may be inappropriate and too expensive for most gift shops, but should be considered in certain cases. In rural areas radio may be relatively inexpensive and it may allow you to reach prospective customers. Tableware and decorative items shops in Winnipeg might consider advertising in "Winnipeg Magazine" which reaches many middle to high income families. Not to be forgotten are the Yellow Pages (outdoor highway signs should be considered by souvenir shops).

The most effective form of advertising for most gift shops is word-of-mouth advertising. It can be acquired only through careful development of a reputation and image -- by providing friendly services, fair prices, and quality merchandise. Your advertising plans should be made carefully so as to cultivate and enhance the image desired. If you wish to be known as a high priced, exclusive gift shop, then probably your advertising would be minimal, and very low-key. The advertising approach that you take must fit

in with the other elements of your business plan, including the type of store, merchandise offered for sale, target market, pricing policies, etc.

1. <u>Customer Service:</u>

   The service which you provide to your customers may attract customers, giving you an edge over the department stores and enticing them to return to your store. This could develop a loyal clientele for your store, especially in the tableware and decorative gift stores.

   a) Hours of Operation: most gift stores are open 60-72 hours/ week. The evening and weekend hours will be the most productive in terms of sales.

   b) Advice and Information: You may want to keep a record of your customers and their purchases. Then when items arrive that you know they are interested in you could contact them about it.

   c) Returns and Complaints: You must reasonably expect that there will be some returns and complaints, so it is important to set a return policy before commencing operations. Policies vary, but some stores offer a return on goods within 7-10 days. Other stores may only allow exchanges or credit.

   d) Cheque cashing policies: It is important to establish a policy for cashing cheques. Establish a charge for Non-Sufficient funds as well as the type of identification required to accept cheques. As well, a record book of names should be kept of all "bad cheques" this should be referred to when accepting a cheque.

2. <u>Financing and Credit:</u>

   It is likely that many of your customers will not choose to pay cash for their purchases. Extending credit is both a customer service and a means of generating business.

   a) Credit Cards: You will have to pay Credit Card companies approximately 3-5% of the total sale for the privilege of utilizing their cards. However, since payment by credit card is the equivalent of a cash payment (you can deposit the slips directly into your bank account) it is certainly to your advantage to seek the right to accept payment by credit card.

   b) Installment Credit or the "Lay Away Plan": In this case the customer makes a deposit toward the purchase of an article. The store then holds the item allowing him/her to make monthly payments towards the purchase of the article.

PRICING

Your retail price should allow sufficient gross profit (the difference between the price of your item and the cost of your item) to cover your overhead expense (heat, light, taxes, insurance, etc.) and a reasonable net profit.

There are two methods to determine the difference between your selling price and your cost price. Both methods should lead to the same result. Method one, mark-up, is based on your cost; and method two, margin, is based on your selling price. Examples showing an entrepreneur setting a $60 price for an item that costs $30 are presented below:

$$\text{METHOD 1 - Mark-Up} = \frac{\text{Selling Price - Cost Price}}{\text{Cost Price}} = \frac{60 - 30}{30} = 100\% \text{ Mark-Up}$$

$$\text{METHOD 2 - Margin} = \frac{\text{Selling Price - Cost Price}}{\text{Selling Price}} = \frac{60 - 30}{60} = 50\% \text{ Margin}$$

Although the methods above show different percentages, the amount of gross profit in each case is the same ($30). Traditionally gift stores have had mark-ups of approximately 100% or margins of 50%.

The most important aspect is that you choose one method to calculate your price and that you understand how the parts of it are used.

FINANCIAL PLANNING

When small businesses fail, they often do so because their owners did not foresee that they would encounter difficult financial circumstances. Proper financial planning can make you aware of possible critical problems before they arise, so that you can take the appropriate action to avoid them. Small businesses often suffer from inadequate financing, and though financial planning may not alleviate that problem, it should enable the entrepreneur to realize the need for additional financing before a crisis arises.

A detailed outline of financial planning is contained in companion volumes in this series: "Small Business Finance Plan", "Marketing", and the "Retail Business Plan". The purpose of this section is to underscore the importance

of sound financial planning, by summarizing the basics of the process. The steps of financial planning include:

1. determine the cost of premises, equipment and fixtures;

2. estimate all operating, direct (cost of materials, wages etc.) and indirect (interest, rent, etc.) expenses;

3. estimate working capital or cash flow requirements, and the sales volume needed to meet those requirements;

4. prepare projected statements: cash flow, profit and loss, and balance sheet.

FINANCIAL RECORDS

Decisions made are only as good as the information upon which they are based. Proper records should be kept so that information about the financial status of the business is available. The information can tell you if any problems are being or are likely to be encountered. Problems such as a sales volume lower than forecast, delinquent accounts receivable, inventories not moving, or profit margins which are too low, may be brought to your attention. The constant monitoring of the business' financial situation can be achieved only if thorough records are kept. You, as a business person, have to know if things are proceeding according to plan. If they are not, you can take remedial action before it is too late.

It is not difficult to maintain a simple record keeping system sufficient for the needs of most small businesses. The exact requirements vary, depending on the volume of business, the number of customers and suppliers, the number of employees, whether or not credit is allowed to customers, and so on. Some of the records you may need include:

1. cash receipts journal used to record all payments made to the business;

2. cash disbursements journal used to record all payments made by the business;

3. accounts receivable ledger used to keep a record of all amounts owed by customers;

4. general ledger, used to keep a record of all accounts on the balance sheet.

As well, you may need a sales journal (recording all sales made on credit), a purchases journal (recording inventory purchases made on credit), an accounts payable ledger (a summary of amounts owed to suppliers, etc.), and a payroll journal (to record wages paid). You should, of course, make all payments by cheque, not by cash, and maintain an accurate cheque book.

Remember that the system you use has to provide information that is useful to you in making decisions about the business. Having an accountant prepare annual statements (which you may have difficulty interpreting in a useful manner) is not enough. You have to understand the records system and the information that it provides for it to be a part of your financial planning process.

The information contained in your records can be thoroughly analyzed to provide more clues about what exactly is happening to your business. You can, for example, compare your financial status to that of other similar businesses. Various publications contain statistics on key financial ratios for a wide range of retail businesses. These ratios include, for example, current assets to current liabilities, gross profit to sales, net profit to sales, and so on. A profit and loss statement for the average gift store, expressed in ratio form, is shown in Appendix I. Comparing your statement to the sample could point out possible problems. If, for example, your gross profit is only 20% (vs 45%-53%), it may mean that your prices are too low. It should be remembered, of course, that the ratios in Appendix I are for the average gift store and there are variations depending on the type of business you are in.

You are required by law to provide statements to the taxation authorities, but a more important purpose of keeping financial records is to enable you to monitor the progress of your business.

PERSONNEL

Personalized service is the most commonly cited reason for continued patronage of a store. A knowledgeable and personable sales staff are of key importance in determining the success of your business. Your staff should

develop a friendly, yet relaxed rapport with patrons. Their ideas, when coupled with customer suggestions, may help you to develop your merchandising policy and maintain a competitive edge.

Most hiring should be done on a referral basis. Prospective applicants should be carefully screened and successful ones put through a training program. Wages can be your greatest expense but if employees are happy, their satisfaction will be reflected in their interactions with customers and increased sales will result.

SECURITY

Gift shops can be particularly vulnerable to pilferage. Poor security can result in a great many problems, including theft (both internal and external), uncollectable credit card sales, excessive bad cheque losses, etc. The following are suggestions to help you keep these problems to a minimum:

1. Train employees to spot shoplifters, and give them specific procedures to follow when such an incident occurs.

2. Prosecute all shoplifters apprehended.

3. Keep expensive and pilferable items under lock and key.

4. When taking cheques, carefully examine all identification.

5. When taking credit cards, check the list of stolen cards, check customer service signature, and get telephone authorization if necessary.

6. Check all employee work history when hiring to help keep internal theft at a minimum.

7. Work with your local police department and consult them whenever it is necessary.

8. Design your store so the layout is amenable to security measures. For example, install mirrors to increase the vision of sales clerks, and encourage clerks to be aware of customer movements in the store.

SUMMARY

Planning will not ensure the success of your enterprise, but it certainly will improve your chances. Remember too, that if your analysis predicts that the business will not be profitable, then do not ignore that analysis and plunge ahead. Do not take starting the business as a foregone conclusion. Financial planning is one part of your business plan, the elements of which bear repeating. The time you take before starting your business and then while it is underway to plan and to monitor those plans could be your most important investment. Failure to do so would be to start off down the highway without a roadmap, not knowing how to get where you want to go.

1. State your goals and objectives;
2. Determine the potential market for your products;
3. Evaluate the location (new or existing);
4. Decide on the store interior and exterior layout;
5. List sources of supply, terms, and an inventory of requirements;
6. Provide for handling incoming merchandise (receiving, checking, marking, and the movement of goods);
7. Decide upon a general pricing policy and pricing strategy to be used to stimulate profitable sales volume;
8. Outline your promotional policies and strategies;
9. Develop management policies and practices for handling store personnel;
10. Conduct a complete financial analysis of the business:
    - determine capital cost expenditure,
    - determine operating costs,
    - develop financial information for sourcing of funds and control;
11. Establish an expense control system (accounting procedures).

If you would like to discuss your Business Plan or have problems and questions related to its preparation, feel free to call the Centre nearest you and arrange to meet with one of the counsellors.

Business Resource Centre
6th Floor - 155 Carlton
Winnipeg, Manitoba
R3C 3H8

Phone: 945-7738
Toll free in Manitoba 1-800-282-8069

Western Regional Office
P.O. Box 1300
231 - 10th Street
Brandon, Manitoba
R7A 6N1

Phone: 726-6250

REFERENCES

Trade Journals

Gift Magazine (Quarterly)
Gift Publications Ltd.
Box 602
Station J
Toronto, Ontario
M4J 4Y4

Gifts & Tableware (Quarterly)
Southan Business Publications
1450 Don Mills Road
Don Mills, Ontario
M3B 2X7

APPENDIX I

TABLE 1. Selected operating ratios, in percent of sales, 1987

Manitoba, Gift, Novelty and Souvenir Stores (SIC 6582)

	Total(1)	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample: No.	33				
Low sales value ($000's)	11	--	--	--	--
High sales value ($000's)	11	--	--	--	--

Selected expense item	Industry average(2)					% businesses reporting	Reporting businesses only(3)				
	Total	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%		Total	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
	Percent of sales						Percent of sales				
Cost of sales	46.2	--	--	--	--	93.5	49.4	--	--	--	--
Occupancy expenses	17.1	--	--	--	--	100.0	17.1	--	--	--	--
Depreciation	1.1	--	--	--	--	79.2	1.3	--	--	--	--
Repairs & maintenance	0.3	--	--	--	--	43.4	0.7	--	--	--	--
Heat, light & telephone	2.3	--	--	--	--	94.6	2.5	--	--	--	--
Rent	13.4	--	--	--	--	90.6	14.7	--	--	--	--
Personnel expenses	14.7	--	--	--	--	85.0	22.7	--	--	--	--
Financial expenses	3.4	--	--	--	--	94.6	3.6	--	--	--	--
Interest & bank charges	2.1	--	--	--	--	82.1	2.5	--	--	--	--
Professional fees	1.4	--	--	--	--	93.5	1.5	--	--	--	--
Other expenses	21.0	--	--	--	--	100.0	21.0	--	--	--	--
Profit (loss)	-2.4	--	--	--	--	90.4	-2.6	--	--	--	--
Total	100.0	--	--	--	--	100.0	...	--	--	--	--

Symbols
- zero or no observations
-- too small too be expressed
... not applicable
x confidential

Footnotes
(1) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000.

(2) Value in each cell = $\frac{\text{Total weighted expenditure on a given item}}{\text{Total weighted sales of all businesses in the sample}} \times 100$ for each quartile.

(3) Value in each cell = $\frac{\text{Total weighted expenditure on a given item}}{\text{Total weighted sales of businesses reporting this item of expenditure}} \times 100$ for each quartile.

This portion of the table pertains only to the businesses reporting the specific expense item. Therefore these ratios are calculated individually and the total will not necessarily equal 100%.

Notes
Data are shown by quartiles when at least 13 of the sampled businesses report the specific item.

Records were ranked in ascending order according to sales size. Each quartile (i.e. bottom 25%, lower middle 25%, etc.) represents one quarter of the total number of businesses. Within each quartile, the average ratio is presented. For comparison purposes, the high and low values of sales are shown.

How to use the tables
(1) Locate the appropriate sales range that is displayed on the two lines entitled "Low sales value" and "High sales value".
(2) The selected range will indicate the proper quartile, i.e. the bottom 25%, the lower middle 25%, the upper middle 25% or the top 25%.
(3) Data pertaining to the selected sales size range will be in that quartile.

Standard Industrial Classification Definition (SIC 1980):

SIC 6582 - Gift, Novelty and Souvenir Stores
Businesses primarily engaged in retail dealing in gifts, novelty merchandise and souvenirs such as: retail carvings and artcraft, retail handicraft ceramics, retail seasonal and holiday decorations, retail handicraft découpage, retail eskimo carvings, retail gift wrap supplies, gift shops, retail handcrafted goods (novelties, souvenirs), joke shops, retail handicraft macrame, retail handicraft metalwork, retail novelty merchandise, retail handicraft pottery and retail souvenirs.

SOURCE: Small Business and Special Surveys Division, Statistics Canada

TABLE 2. Balance sheet profile for incorporated businesses only, 1987

Manitoba, Gift, Novelty and Souvenir Stores (SIC 6582)

	Total(1)	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample (No.)	15				
Low sales value ($000's)	(1)	--	--	--	--
High sales value ($000's)	(1)	--	--	--	--
			Average ($000's)		
Assets					
Cash	-	--	--	--	--
Accounts and notes receivable	2	--	--	--	--
Inventory	-	--	--	--	--
Other current assets	49	--	--	--	--
Total current assets	52	--	--	--	--
Fixed assets	8	--	--	--	--
Less: Accum. dep. on fixed assets	-	--	--	--	--
Other assets	6	--	--	--	--
Total assets	66	--	--	--	--
Liabilities and equity					
Current loans	12	--	--	--	--
Other current liabilities	24	--	--	--	--
Total current liabilities	36	--	--	--	--
Mortgages payable	-	--	--	--	--
Long term debt	-	--	--	--	--
Other liabilities	33	--	--	--	--
Total liabilities	69	--	--	--	--
Total equity	-3	--	--	--	--

(1) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000

See Table 1 for symbols and notes.

TABLE 3. Financial ratios(1) for incorporated businesses only, 1987

Manitoba, Gift, Novelty and Souvenir Stores (SIC 6582)

	Total(2)	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample (No.)	15				
Low sales value ($000's)	(1)	--	--	--	--
High sales value ($000's)	(1)	--	--	--	--
			Average		
Liquidity ratio					
Current ratio (times)	1.4	--	--	--	--
Leverage ratios					
Debt/equity ratio (times)	-28.7	--	--	--	--
Interest coverage ratio (times)	0.6	--	--	--	--
Debt ratio (times)	1.0	--	--	--	--

(1) The ratios represent the average of ratios for each business in the group and cannot be calculated from the figures shown in Table 2.

(2) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000.

See Table 1 for symbols and notes.

Definitions:

1. Liquidity ratio:

   Current = current assets / current liabilities.

2. Leverage ratios:

   a) Debt/equity = total liabilities / equity.
   b) Debt ratio = total liabilities / total assets.
   c) Interest coverage = net profit + interest expense / interest expense.

SOURCE. Small Business and Special Surveys Division, Statistics Canada.

TABLE 4. Statement of changes in financial position for incorporated businesses only, 1987

Manitoba, Gift, Novelty and Souvenir Stores (SIC 8582)

	Total(1)	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample (No.)	5				
Low sales value ($000's)	1	--	--	--	--
High sales value ($000's)	11	--	--	--	--
			Average ($000's)		
Operating activities					
Cash from operations	.	--	--	--	--
Depreciation	2	--	--	--	--
Other	-1	--	--	--	--
Dividends	-	--	--	--	--
Investment activities					
Disposal of fixed assets	-	--	--	--	--
Purchase of fixed assets	-1	--	--	--	--
Increase in investment	-	--	--	--	--
Decrease in investment	-	--	--	--	--
Financing activities					
Increase in long term debt	-	--	--	--	--
Repayment of long term debt	-	--	--	--	--
Loans from shareholders	-	--	--	--	--
Repayment of loans from shareholders	-8	--	--	--	--
Advances & loans from government	-	--	--	--	--
Increase in equity	-	--	--	--	--
Decrease in equity	-	--	--	--	--
Other	-	--	--	--	--
Increase(decrease) in cash & equivalents	-6	--	--	--	--
Cash & equivalents-Beginning of the year	-11	--	--	--	--
Cash & equivalents - End of the year	-17	--	--	--	--

(1) These estimates are based on a sample of incorporated businesses reporting sales between $25,000 and $2,000,000. Sample count includes only those businesses reporting a statement of changes.
See Table 1 for symbols and notes.

TABLE 5. Employment changes by size of business, 1984-1987 based on SIC classification in 1987

Manitoba, Gift, Novelty and Souvenir Stores (SIC 8582)

Business size expressed in average labour units(1)	Number of businesses	Total payroll ($000's)	Average labour units(1)	Changes in number of businesses with paid employees: Newly reporting(2)	Changes in number of businesses with paid employees: No longer reporting(3)
1984					
Total	125	3,281	283	21	14
less than 20	119	X	205	21	13
20 - 99	1	X	11	-	1
100 - 499	5	578	47	-	-
500 and over	-	-	-	-	-
1987					
Total	132	5,571	371	30	...
less than 20	125	X	201	30	...
20 - 99	1	X	4	-	...
100 - 499	6	2,451	166	-	...
500 and over	-	-	-	-	...

(1) Average labour units are calculated by dividing total payroll by the average annual wage and salary rate as reported in the *Survey of Employment, Payroll and Hours*, Statistics Canada, Catalogue 72-002. An average labour unit could be interpreted as a full-time employee. Note that the business size groups used are determined at the Canada level. Thus if a business has at least 500 employees in Canada as a whole but less than that number in any given province it is shown in the 500 and over group.
(2) Refers to businesses reporting no payroll deductions in the previous year.
(3) Refers to businesses reporting no payroll deductions in the following year.

"Newly reporting" and "no longer reporting" businesses are assumed to have been in activity for six months and the information is adjusted accordingly.

See Table 1 for symbols and notes.

SOURCE: Small Business and Special Surveys Division, Statistics Canada.

TABLE 6. Selected operating characteristics of small businesses by sales quartile, 1985-1987

Manitoba, Gift, Novelty and Souvenir Stores (SIC 5582)

	Total(1)	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
			1985		
Number of observations in sample	12				
Average sales $	188.711	--	--	--	--
Average expense $	188.451	--	--	--	--
Average net profit (loss) $	260	--	--	--	--
Businesses reporting a profit (No.)	8				
Average sales $	155.878	--	--	--	--
Average expense $	140.849	--	--	--	--
Average net profit $	14.829	--	--	--	--
Businesses reporting a loss (No.)	4				
Average sales $	178.031	--	--	--	--
Average expense $	193.441	--	--	--	--
Average net loss $	-15.410	--	--	--	--
			1986		
Number of observations in sample	34				
Average sales $	130.810	--	--	--	--
Average expense $	122.077	--	--	--	--
Average net profit (loss) $	8.733	--	--	--	--
Businesses reporting a profit (No.)	28				
Average sales $	133.952	--	--	--	--
Average expense $	120.983	--	--	--	--
Average net profit $	12.969	--	--	--	--
Businesses reporting a loss (No.)	6				
Average sales $	119.005	--	--	--	--
Average expense $	125.867	--	--	--	--
Average net loss $	-6.862	--	--	--	--
			1987		
Number of observations in sample	26				
Average sales $	147.287	--	--	--	--
Average expense $	148.723	--	--	--	--
Average net profit (loss) $	564	--	--	--	--
Businesses reporting a profit (No.)	14				
Average sales $	173.150	--	--	--	--
Average expense $	164.814	--	--	--	--
Average net profit $	8.336	--	--	--	--
Businesses reporting a loss (No.)	12				
Average sales $	121.109	--	--	--	--
Average expense $	125.963	--	--	--	--
Average net loss $	-4.854	--	--	--	--

(1) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000.

See Table 1 for symbols and notes

SOURCE: Small Business and Special Surveys Division, Statistics Canada.

APPENDIX II

TABLE A. Analysis of Sales Per Selling Area by Kind of Business and Region, Ranked by Sales Per Square Foot of Selling Area

TABLEAU A. Analyse des ventes selon la superficie de vente d'après le genre de commerce et la région - Classement d'après les ventes par pied carré de superficie de vente - suite

Region, Quartiles and Weighted Averages / Région, Quartiles et moyennes pondérées	Sales - Ventes: Lower Quartile Values / valeur minimum du quartile		Average Annual Sales / $ 000'S / ventes annuelles moyennes	Selling Area Average / Superficie moyenne de vente		Type of Store Location / Genre d'emplacement				
	Square Foot / Pieds carrés	Square Metre / Mètres carrés		Square Feet / Pieds carrés	Square Metres / Mètres carrés	On Street / Sur rue	Shopping Centre: Neighbourhood / de quartier	Shopping Centre: Community / Communautaire	Centre Commercial: Regional / Régional	Centre Commercial: Indoor Mall / Mail intérieur
	$	$				%	%	%	%	%
Gift, Novelty & Souvenir Shops / Cadeaux articles de fantaisie et souvenirs										
Nova Scotia / Nouvelle-Écosse										
Top 25% / Supérieur 25%	296	3 186	92	273	25	55	22	-	22	-
Upper Middle 25% / Intermédiaire supérieur 25%	145	1 561	37	815	75	50	25	-	-	25
Lower Middle 25% / Intermédiaire inférieur 25%	77	829	140	1 200	110	78	22	-	-	-
Bottom 25% / Inférieur 25%			25	508	56	100	-	-	-	-
Average / Moyenne			98	718	66	72	17	-	6	6
Quebec / Québec										
Top 25% / Supérieur 25%	368	3 961	203	414	38	51	12	-	37	-
Upper Middle 25% / Intermédiaire supérieur 25%	162	1 744	141	509	56	82	15	-	2	-
Lower Middle 25% / Intermédiaire inférieur 25%	102	098	70	560	52	67	-	11	22	-
Bottom 25% / Inférieur 25%			70	397	92	77	12	12	-	-
Average / Moyenne			118	648	60	68	9	6	16	-
Ontario										
Top 25% / Supérieur 25%	297	3 197	228	761	70	69	-	-	22	8
Upper Middle 25% / Intermédiaire supérieur 25%	144	1 550	124	515	57	57	33	1	9	-
Lower Middle 25% / Intermédiaire inférieur 25%	65	700	30	912	84	92	-	-	8	-
Bottom 25% / Inférieur 25%			44	904	83	81	19	-	-	-
Average / Moyenne			145	800	74	75	13	-	10	2
Manitoba										
Top 25% / Supérieur 25%	513	5 522	188	338	31	100	-	-	-	-
Upper Middle 25% / Intermédiaire supérieur 25%	252	2 713	92	345	32	100	-	-	-	-
Lower Middle 25% / Intermédiaire inférieur 25%	224	2 411	164	720	66	100	-	-	-	-
Bottom 25% / Inférieur 25%			113	814	75	100	-	-	-	-
Average / Moyenne			135	580	53	100	-	-	-	-
Alberta										
Top 25% / Supérieur 25%	330	3 552	504	1 465	135	41	-	41	-	18
Upper Middle 25% / Intermédiaire supérieur 25%	170	1 830	100	479	44	70	-	-	30	-
Lower Middle 25% / Intermédiaire inférieur 25%	98	1 033	94	550	50	50	50	-	-	-
Bottom 25% / Inférieur 25%			88	1 089	100	100	-	-	-	-
Average / Moyenne			171	921	85	71	9	8	9	4
British Columbia / Colombie-Britannique										
Top 25% / Supérieur 25%	200	2 153	150	431	40	92	-	-	8	-
Upper Middle 25% / Intermédiaire supérieur 25%	141	1 518	152	923	85	63	7	1	22	8
Lower Middle 25% / Intermédiaire inférieur 25%	88	947	109	1 053	97	100	-	-	-	-
Bottom 25% / Inférieur 25%			53	814	75	83	6	6	5	-
Average / Moyenne			112	787	73	83	4	2	9	2

See Appendix IV for sample counts. Voir l'annexe IV pour les chiffres de l'échantillon

SOURCE Retail Selling Area Survey, Small Business Statistics, Statistics Canada
SOURCE Enquête sur la superficie de vente au détail, Statistiques sur les petites entreprises, Statistique Canada

APPENDIX III

PRELIMINARY ESTIMATES

TABLE 10. Retail Trade, Chain and Independent Stores, by Kind of Business

Metropolitan Winnipeg

January - 1988 - Janvier

No.	Kind of business / Genre de commerce	Chain stores / Magasins a succursales		Independent / Magasins independants		All stores / Ensemble des magasins	
		Sales / Ventes	Change 1988/1987 Variation	Sales / Ventes	Change 1988/1987 Variation	Sales / Ventes	Change 1988/1987 Variation
		$'000	%	$'000	%	$'000	%
5	General merchandise stores	x	x	x	x	3,815	+ 8.1
6	General stores	-	-	80*	..	80	...
7	Variety stores	x	x	x	x	467	- 12.2

Manitoba

January - 1988 - Janvier

No.	Kind of business / Genre de commerce	Chain stores / Magasins a succursales		Independent / Magasins independants		All stores / Ensemble des magasins	
		Sales / Ventes	Change 1988/1987 Variation	Sales / Ventes	Change 1988/1987 Variation	Sales / Ventes	Change 1988/1987 Variation
		$'000	%	$'000	%	$'000	%
4	Department stores	31,676	- 12.9	-	-	31,676	- 12.9
5	General merchandise stores	x	x	x	x	9,298	+ 9.8
6	General stores	x	x	x	x	13,889	+ 20.3
7	Variety stores	x	x	x	x	1,816	- 9.4